

CITY OF HAMPTON

Hampton, Iowa

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2004

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CITY OF HAMPTON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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(Before January 2004)

Pat Sackville	Mayor	January 2004
Shelleen Meyer	Council Member	January 2004
Barry Lamos	Council Member	January 2004
Philip Hauser	Council Member	January 2004
Craig Eckhardt	Council Member	January 2006
R. Douglas McWilliams	Council Member	January 2006
Patrick Palmer	Council Member	January 2006
Ron Dunt	City Administrator.....	Indefinite
James E. Coonley Sr.	City Attorney.....	Indefinite

(After January 2004)

Diane Weldin	Mayor	January 2006
Bill Hodge	Council Member	January 2008
Barry Lamos	Council Member	January 2008
Karen Schmidt	Council Member	January 2008
Craig Eckhardt	Council Member	January 2006
Steve Harms.....	Council Member	January 2006
Patrick Palmer	Council Member	January 2006
Ron Dunt	City Administrator.....	Indefinite
Michael Cross	City Attorney.....	Indefinite

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hampton, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hampton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hampton as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's*

Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No.41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 28, 2004 on our consideration of the City of Hampton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 29 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Hampton's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the years ending June 30, 2002 and 2001, were audited by other auditors. Unqualified opinions were expressed. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

September 28, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hampton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 7% or approximately \$212,039 from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$111,816 and bond proceeds increased \$261,294.
- Disbursements increased 3% or approximately \$96,010, in fiscal 2004 from fiscal 2003. Public safety and debt service disbursements decreased approximately \$4,773 and \$94,099 respectively.
- The City's total cash basis net assets increased 53% or \$925,511. Of this amount, the assets of the governmental activities increased approximately \$678,839 and the assets of the business type activities increased by approximately \$249,672.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and solid waste disposal. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains eight Enterprise Funds to provide separate information for the water, sewer and solid waste funds. Water and Sewer are considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities is \$1,158,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year Ended June 30, 2004
Receipts and Transfers	
Program Receipts	
Charges for Service	\$221
Operating Grants, Contributions and Restricted Interest	412
Capital Grants, Contributions and Restricted Interest	127
General Receipts	
Property Tax	2,079
Local Option Sales Tax	258
Unrestricted Investment Earnings	18
Bond Proceeds	261
Other General Receipts	305
Transfers, Net	(128)
Total Receipts and Transfers	3,553
Disbursements	
Public Safety	771
Public Works	424
Health and Social Services	10
Culture and Recreation	370
Community and Economic Development	249
General Government	146
Debt Service	888
Total Disbursements	2,858
Increase in Cash Basis Net Assets	695
Cash Basis Net Assets Beginning of Year	463
Cash Basis Net Assets End of Year	\$1,158

The City's total receipts for governmental activities was \$3,420,755. The total disbursements were \$2,858,000.

The City property tax rates for 2004 increased by 21 cents. There were no significant increases in assessed valuations in the budget year.

The cost of all governmental activities this year was \$2.858 million compared to \$2.762 million last year. However, as shown in the Statement of Activities and Net Assets on pages 11 and 12, the amount taxpayers ultimately financed for these activities was only \$2.001 million because some of the cost was paid by those directly benefited from the programs (\$221,204) or by other

governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$539,444). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2004 from approximately \$826,678 to approximately \$760,648. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,097,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year Ended June 30, 2004
Receipts	
Program Receipts	
Charges for Service	
Water	\$677
Sewer	298
Solid Waste	19
Meter Deposits	7
General Receipts	
Use of Property	7
Transfers	129
	<u>1,137</u>
Disbursements and Transfers	
Water	356
Sewer	252
Solid Waste	24
Meter Deposits	5
Debt Service	270
Total Disbursements and Transfers	<u>907</u>
Increase in Cash Balance	230
Cash Basis Net Assets - Beginning of Year	<u>1,272</u>
Cash Basis Net Assets - End of Year	<u><u>\$1,502</u></u>

Total business type activities receipts for the fiscal year were \$1.001 million compared to \$1.026 million last year. The significant decrease is due to the reduction in water rates.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hampton completed the year, its governmental funds reported a combined fund balance of \$1,158,387, an increase of more than \$675,839 from last year's total of \$482,548. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$176,440 from the prior year to \$36,895. Approximately \$81,900 of this increase was due to common stock sale received this fiscal year. The remaining increase is a result of decreasing expenditures.

- The Road Use Tax Fund cash balance increased by \$53,128 to \$113,469 during the fiscal year. The City intends to use this money to upgrade the condition of all City roads.
- Tax Increment Fund ended the fiscal year with a cash balance of \$173,624 an increase of \$502,629 from the previous year. The increase was the result of incremental property tax generated from the increased taxable valuation in the district.
- The Debt Service Fund cash balance increased by \$516 to \$443,883 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$155,989 to \$589,165, due primarily to an increase in the sale of water and reductions in debt service payments over the prior year.
- The Sewer Fund cash balance increased by \$45,976 to \$242,309. This is a result of decreasing expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 25, 2004 and resulted in an increase in operating revenues related to stock sale proceeds, a fund transfer and proceeds of refunding a 1997 Capital Loan Note. An increase in operating disbursements related to an accounting change, and cost overrun on Community and Economic Development funds, refunding of the 1997 Capital Loan Note.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$4,148,787 in bonds and other long-term debt, compared to approximately \$4,794,796 last year, as shown below. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,148,787, is below its constitutional debt limit of \$4,292,459.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General Obligation Bonds	\$ 1,330	\$ 1,520
Special assessment bonds and notes	210	240
Urban renewal tax increment financing revenue bonds	1,044	1,235
Revenue Notes	1,340	1,520
Bank loans	125	155
Promissory notes	100	125
Total	\$ 4,149	\$ 4,795

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The assessed valuations in recent years have remained relatively constant while the taxable values have declined due to the state mandated "Rollback". This has resulted in the city cutting services and expenditures to allow for the decreasing revenues. The "Rollback" is expected to further reduce taxable values for the next budget year. The city has looked at areas to adjust charges for services to help curb the declining revenues and look for new sources of revenue where possible.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$4.7 million, an increase of 4% over the final 2004 budget. Proceeds from the urban renewal tax increment financing are expected to lead this increase. The City will use these increases in receipts to finance tax increment debt. Budgeted disbursements are expected to fall by approximately \$72,000. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$73,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ron Dunt, City Manager, 122 1st Ave NW, Hampton, Iowa.

Basic Financial Statements

CITY OF HAMPTON

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS

As of and for the Year Ended June 30, 2004

			Program Receipts	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs	Disbursements	Charges for Service		
Governmental Activities				
Public Safety	\$770,806	\$103,291	\$37,855	\$ 0
Public Works	423,711	2,302	355,606	0
Health & Social Services	10,364	0	0	0
Culture & Recreation	370,225	98,667	3,734	0
Community & Economic Development	249,308	0	0	127,186
General Government	146,120	16,944	15,063	0
Debt Service	887,549	0	0	0
Total Governmental Activities	2,858,083	221,204	412,258	127,186
Business Type Activities				
Water	355,768	677,445	0	0
Water Revenue Note Sinking	269,955	0	0	0
Sewer Rental	252,209	298,185	0	0
Solid Waste	24,014	18,789	0	0
Meter Deposits	5,253	7,125	0	0
Total Business Type Activities	907,199	1,001,544	0	0
Total	\$3,765,282	\$1,222,748	\$412,258	\$127,186
General Receipts				
Property Tax Levied For				
General Purposes				
Tax Increment Financing				
Debt Service				
Local Option Sales Tax				
Unrestricted Interest on Investments				
Bond Proceeds				
Miscellaneous				
Transfers				
Total General Receipts & Transfers				
Change in Cash Basis Net Assets				
Cash Basis Net Assets – Beginning of Year				
Cash Basis Net Assets – End of Year				
Cash Basis Net Assets				
Restricted				
Streets				
Urban Renewal Purposes				
Debt Service				
Other Purposes				
Unrestricted				
Total Cash Basis Net Assets				
See Notes to Financial Statements				

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$(629,660)	\$ 0	\$(629,660)
(65,803)	0	(65,803)
(10,364)	0	(10,364)
(267,823)	0	(267,823)
(122,122)	0	(122,122)
(114,113)	0	(114,113)
(887,549)	0	(887,549)
(2,097,435)	0	(2,097,435)
0	321,677	321,677
0	(269,955)	(269,955)
0	45,976	45,976
0	(5,225)	(5,225)
0	1,872	1,872
0	94,345	94,345
\$(2,097,435)	\$94,345	\$(2,003,090)
\$937,996	\$ 0	\$937,996
859,211	0	859,211
282,168	0	282,168
257,699	0	257,699
17,994	0	17,994
261,294	0	261,294
305,039	7,200	312,239
(128,885)	128,885	0
2,792,516	136,085	2,928,601
695,081	230,430	925,511
463,306	1,271,655	1,734,961
\$1,158,387	\$1,502,085	\$2,660,472
\$113,469	\$ 0	\$113,469
173,624	0	173,624
443,883	336,018	779,901
232,517	0	232,517
194,894	1,166,067	1,360,961
\$1,158,387	\$1,502,085	\$2,660,472

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2004

		Special Revenue	
	General	Road Use Tax	Tax Increment Financing
Receipts			
Property Tax	\$621,532	\$ 0	\$ 0
Tax Increment Financing Collections	0	0	859,211
Other City Tax	84,851	0	0
Licenses & Permits	11,441	0	0
Use of Money & Property	46,960	0	0
Intergovernmental	81,407	351,307	0
Charges for Service	244,227	0	0
Special Assessments	0	4,299	0
Miscellaneous	96,238	0	0
Total Receipts	1,186,656	355,606	859,211
Disbursements			
Operating			
Public Safety	576,775	0	0
Public Works	121,233	302,478	0
Health & Social Services	10,364	0	0
Culture & Recreation	312,571	0	0
Community & Economic Development	193,353	0	48,928
General Government	113,422	0	0
Debt Service	0	0	307,654
Total Disbursements	1,327,718	302,478	356,582
Excess of Receipts Over Disbursements	(141,062)	53,128	502,629
Other Financing Sources (Uses)			
Bond Proceeds	0	0	0
Operating Transfers In	322,902	0	0
Operating Transfers Out	(5,400)	0	0
Total Other Financing Sources (Uses)	317,502	0	0
Net Change in Cash Balances	176,440	53,128	502,629
Cash Balance – Beginning of Year	(139,545)	60,341	(329,005)
Cash Balance – End of Year	\$36,895	\$113,469	\$173,624
Cash Basis Fund Balances			
Reserved			
Debt Service	\$ 0	\$ 0	\$ 0
Cemetery Perpetual Care	0	0	0
Unreserved			
General Fund	36,895	0	0
Special Revenue Funds	0	113,469	173,624
Total Cash Basis Fund Balances	\$36,895	\$113,469	\$173,624

See Notes to Financial Statements

Exhibit B

Debt Service	Other Non-Major Governmental Funds	Total
\$282,168	\$315,595	\$1,219,295
0	0	859,211
170	257,933	342,954
0	0	11,441
0	(699)	46,261
0	127,016	559,730
0	0	244,227
0	36,779	41,078
0	320	96,558
282,338	736,944	3,420,755
0	194,031	770,806
0	0	423,711
0	0	10,364
0	57,654	370,225
0	7,027	249,308
0	32,698	146,120
536,035	43,860	887,549
536,035	335,270	2,858,083
(253,697)	401,674	562,672
261,294	0	261,294
0	5,400	328,302
0	(451,787)	(457,187)
261,294	(446,387)	132,409
7,597	(44,713)	695,081
231,812	639,703	463,306
\$239,409	\$594,990	\$1,158,387
\$239,409	\$204,474	\$443,883
0	168,096	168,096
0	0	36,895
0	222,420	509,513
\$239,409	\$594,990	\$1,158,387

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES IN CASH BALANCES – ENTERPRISE FUNDS

As of and for the Year Ended June 30, 2004

	Water	Water Revenue Note Sinking	Water Improvement
Operating Receipts			
Use of Money & Property	\$7,200	\$ 0	\$ 0
Charges for Service	638,630	0	0
Miscellaneous	38,815	0	0
Total Operating Receipts	684,645	0	0
Operating Disbursements			
Business Type Activities	355,768	0	0
Total Operating Disbursements	355,768	0	0
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	328,877	0	0
Non-Operating Disbursements			
Debt Service	0	(269,955)	0
	0	(269,955)	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	328,877	(269,955)	0
Operating Transfers In (Out)	(172,888)	301,773	0
Net Change in Cash Balances	155,989	31,818	0
Cash Balance – Beginning of Year	433,176	49,200	100,000
Cash Balance – End of Year	\$589,165	\$81,018	\$100,000
Cash Basis Fund Balances			
Reserved for Debt Service	\$ 0	\$81,018	\$100,000
Unreserved	589,165	0	0
Total Cash Basis Fund Balances	\$589,165	\$81,018	\$100,000

See Notes to Financial Statements

Exhibit C

Water Reserve	Water Construction	Sewer Rental	Solid Waste	Meter Deposits	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$7,200
0	0	290,016	18,789	0	947,435
0	0	8,169	0	7,125	54,109
0	0	298,185	18,789	7,125	1,008,744
0	0	252,209	24,014	5,253	637,244
0	0	252,209	24,014	5,253	637,244
0	0	45,976	(5,225)	1,872	371,500
0	0	0	0	0	(269,955)
0	0	0	0	0	(269,955)
0	0	45,976	(5,225)	1,872	101,545
0	0	0	0	0	128,885
0	0	45,976	(5,225)	1,872	230,430
155,000	254,403	196,333	64,301	19,242	1,271,655
\$155,000	\$254,403	\$242,309	\$59,076	\$21,114	\$1,502,085
\$155,000	\$254,403	\$ 0	\$ 0	\$ 0	\$590,421
0	0	242,309	59,076	21,114	911,664
\$155,000	\$254,403	\$242,309	59,076	\$21,114	\$1,502,085

City of Hampton

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Hampton is a political subdivision of the State of Iowa located in Floyd County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hampton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Hampton has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: North Iowa Task Force, the Landfill of North Iowa, and the Franklin County Emergency Management Commission, the Franklin County E911 Service Board and the Franklin County Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements- Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From this fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Hampton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Health & Social Services and the General Government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter

12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name. The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
Mutual Funds	\$15,297	\$15,297
Fixed Income	138,000	135,455

(2) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds and Notes		Promissory Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$416,000	\$127,546	\$185,000	\$61,184	\$25,000	\$0
2006	427,000	105,626	190,000	50,990	25,000	0
2007	443,000	83,751	200,000	42,957	25,000	0
2008	228,000	60,485	205,000	34,128	25,000	0
2009	239,000	48,173	220,000	24,673	0	0
2010	255,000	35,119	80,000	17,733	0	0
2011	270,000	21,004	85,000	13,652	0	0
2012	96,000	5,734	85,000	9,233	0	0
2013	0	0	90,000	4,770	0	0
Total	\$2,374,000	\$487,438	\$1,340,000	\$259,320	\$100,000	0

Year Ending June 30,	Special Assessment Notes		Bank Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$30,000	\$11,970	\$30,922	\$6,470	\$686,922	\$207,170
2006	30,000	10,350	31,877	4,822	703,877	171,788
2007	30,000	8,700	32,890	3,179	730,890	138,587
2008	30,000	7,020	29,099	1,478	517,099	103,111
2009	30,000	5,310	0	0	489,000	78,156
2010	30,000	3,570	0	0	365,000	56,422
2011	30,000	1,800	0	0	385,000	36,456
2012	0	0	0	0	181,000	14,967
2013	0	0	0	0	90,000	4,770
Total	\$210,000	\$48,720	\$124,788	\$15,949	\$4,148,788	\$811,427

On August 1, 2002, the City issued \$780,000 of Water Revenue Refunding Capital Loan Notes. The notes are not general obligations of the City and are payable solely and only out of the future net revenues of the municipal water utility, a sufficient portion of which has been ordered set aside and pledged for that purpose. The notes are not payable in any manner by taxation and under no circumstances shall the City be in any manner liable by reason of failure of said revenue to be sufficient for the payment of the Notes and the interest thereon.

The Note resolution requires Sinking, Reserve and Improvement Funds be established for debt service and extraordinary maintenance expenses. Interest payments are semiannual commencing on March 1, 2003. Principal payments are semiannual commencing on September 1, 2003, continuing through September 1, 2008.

On April 1, 2004, the City issued \$265,000 of General Obligation Refunding Capital Loan Notes, Series 2004. The notes were issued for the purpose of refunding outstanding General Obligations Notes dated May 1, 1997. The balance of this note was \$255,000. Proceeds of the notes were \$261,294. The City will save approximately \$18,000 in interest as a result of refunding the 1997 notes.

The City is in compliance with the provisions of the Note Resolutions.

(3) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29% respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$63,714, \$64,420, and \$72,254, respectively, equal to the required contribution for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination

payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$45,991

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$128,884
	Economic Development	168,508
	Expendable Trust:	
	Library Trust	25,510
		<u>322,902</u>
Enterprise	Special Revenue:	
Water Sinking	Local Option Sales Tax	128,885
	Enterprise:	
	Water Revenue	172,888
		<u>301,773</u>
Non-Expendable Trust		
Cemetery Perpetual Care	General	<u>5,400</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,120 during the year ended June 30, 2004.

(8) Landfill of North Iowa

The City, in conjunction with seventeen other municipalities, has created the Landfill of North Iowa. The Landfill was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Landfill will be prorated among the municipalities. The Landfill is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Landfill is not accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Hampton has an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs.

During the year ended June 30, 2004, the City of Hampton paid \$5,694 for its share of the costs. Completed financial statements for the Landfill can be obtained from the Landfill of North Iowa.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(10) Budget Over Expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the Health & Social Services and the General Government functions exceeded the amounts budgeted.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and a fund financial statement which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Required Supplementary Information

CITY OF HAMPTON

BUDGET COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS & CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS – REQUIRED SUPPLEMENTARY INFORMATION Year Ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property Tax	\$1,219,295	\$ 0	\$1,219,295
Tax Increment Financing	859,211	0	859,211
Other City Tax	342,954	0	342,954
Licenses & Permits	11,441	0	11,441
Use of Money & Property	46,261	7,200	53,461
Intergovernmental	559,730	0	559,730
Charges for Service	244,227	947,435	1,191,662
Special Assessments	41,078	0	41,078
Miscellaneous	96,558	54,109	150,667
Total Receipts	3,420,755	1,008,744	4,429,499
Disbursements			
Public Safety	770,806	0	770,806
Public Works	423,711	0	423,711
Health & Social Services	10,364	0	10,364
Culture & Recreation	370,225	0	370,225
Community & Economic Development	249,308	0	249,308
General Government	146,120	0	146,120
Debt Service	887,549	0	887,549
Business Type Activities	0	907,199	907,199
Total Disbursements	2,858,083	907,199	3,765,282
Excess of Receipts Over Disbursements	562,672	101,545	664,217
Other Financing Sources (Uses), Net	132,409	128,885	261,294
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	695,081	230,430	925,511
Balances – Beginning of Year	463,306	1,271,655	1,734,961
Balances – End of Year	\$1,158,387	\$1,502,085	\$2,660,472

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Net Variance
Original	Final	
\$1,140,522	\$1,140,522	\$78,773
525,000	525,000	334,211
275,829	275,829	67,125
8,875	8,875	2,566
44,000	125,901	(72,440)
781,749	781,749	(222,019)
1,097,300	1,097,300	94,362
34,000	34,000	7,078
60,450	60,450	90,217
3,967,725	4,049,626	379,873
819,821	819,821	49,015
509,300	509,300	85,589
8,500	8,500	(1,864)
384,950	384,950	14,725
296,700	331,700	82,392
141,300	141,300	(4,820)
675,991	930,991	43,442
957,088	957,088	49,889
3,793,650	4,083,650	318,368
174,075	(34,024)	698,241
0	261,000	294
174,075	226,976	698,535
1,147,198	1,147,198	587,763
\$1,321,273	\$1,374,174	\$1,286,298

City of Hampton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$290,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Health and Social Services and General Government functions.

Other Supplementary Information

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS Year Ended June 30, 2004

	Special Revenue		
	Employee Benefits	Economic Development	Local Option Sales Tax
Receipts			
Property Tax	\$315,595	\$ 0	\$ 0
Tax Increment Financing	0	0	0
Other City Tax	234	0	257,699
Licenses & Permits	0	0	0
Use of Money & Property	0	0	0
Intergovernmental	0	127,016	0
Charges for Service	0	0	0
Special Assessments	0	0	0
Miscellaneous	0	170	0
Total Receipts	315,829	127,186	257,699
Disbursements			
Public Safety	194,031	0	0
Public Works	0	0	0
Health & Social Services	0	0	0
Culture & Recreation	57,276	0	0
Community & Economic Development	0	7,027	0
General Government	32,698	0	0
Debt Service	0	0	0
Business Type Activities	0	0	0
Total Disbursements	284,005	7,027	0
Excess of Receipts Over Disbursements	31,824	120,159	257,699
Other Financing Sources (Uses), Net			
Bond Proceeds	0	0	0
Sale of Capital Assets	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	(168,508)	(257,769)
	0	(168,508)	(257,769)
Net Change in Balances	31,824	(48,349)	(70)
Balances – Beginning of Year	106,016	68,508	(70)
Balances – End of Year	\$137,840	\$20,159	\$ 0
Cash Basis Fund Balances			
Reserved for Debt Service	\$ 0	\$ 0	\$ 0
Reserved for Cemetery Perpetual Care	0	0	0
Unreserved			
Special Revenue Funds	137,840	20,159	0
Total Cash Basis Fund Balances	\$137,840	\$20,159	\$ 0

See Accompanying Independent Auditors' Report.

Schedule 1

Special Revenue		Debt Service	Non-Expendable Trust	
Library Trust	Cemetery Trust	Special Assessments	Cemetery Perpetual Care	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$315,595
0	0	0	0	0
0	0	0	0	257,933
0	0	0	0	0
41	2,221	0	(2,961)	(699)
0	0	0	0	127,016
0	0	0	0	0
0	0	36,779	0	36,779
0	150	0	0	320
41	2,371	36,779	(2,961)	736,944
0	0	0	0	194,031
0	0	0	0	0
0	0	0	0	0
0	378	0	0	57,654
0	0	0	0	7,027
0	0	0	0	32,698
0	0	43,860	0	43,860
0	0	0	0	0
0	378	43,860	0	335,270
41	1,993	(7,081)	(2,961)	401,674
0	0	0	0	0
0	0	0	0	0
0	0	0	5,400	5,400
(25,510)	0	0	0	(451,787)
(25,510)	0	0	5,400	(446,387)
(25,469)	1,993	(7,081)	2,439	(44,713)
27,970	59,927	211,555	165,657	639,703
\$2,501	\$61,920	\$204,474	\$168,096	\$594,990
\$ 0	\$ 0	\$204,474	\$ 0	\$204,474
0	0	0	168,096	168,096
2,501	61,920	0	0	222,420
\$2,501	\$61,920	\$204,474	\$168,096	\$594,990

CITY OF HAMPTON
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes:			
Capital Loan Note/TIF	May 1, 1993	4.60 – 7.5%	\$190,000
Industrial Park	Sept 1, 1995	6.8 - 7.4%	1,000,000
Imperial Road Project/Airport	May 1, 1997	4.5 – 5.45%	150,000
Refunding Note	Apr 1, 2004	1.3 – 2.0%	265,000
AmericInn TIF/GL Coatings	Feb. 1, 1998	5.75 – 7.0%	700,000
Fire Truck/Street Improvement/ Industrial Park	Sept 1, 2000	4.9 – 5.5%	1,300,000
Franklin Prairie	Apr 1, 2001	4.25 – 5.1%	250,000
Golden Triangle/FCDA Building	Nov 19, 2001	2.8 – 4.4%	130,000
Special Assessment Notes			
Street Improvement	Sept 1, 2000	5.1 – 6.0%	300,000
Revenue Notes			
Refunding Note – Water Plant	Aug 1, 2002	2.75 – 4.4%	780,000
Local Option Tax Revenue Bond			
Water Tower	Feb 1, 1998	4.15 – 5.9%	1,000,000
Promissory Note			
Water Tower	June 1, 1998	0%	250,000
Bank Loans			
First National Bank	Nov 30, 1998	6.0%	150,000
Hampton State Bank	Dec 15, 1998	4.2%	150,000

See Accompanying Independent Auditors' Report.

Schedule 2

Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$40,000	\$ 0	\$20,000	\$20,000	\$2,950	\$ 0
485,000	0	110,000	375,000	35,547	0
330,000	0	330,000	0	17,712	0
0	265,000	0	265,000	0	0
360,000	0	30,000	330,000	24,220	0
1,190,000	0	125,000	1,065,000	63,007	0
230,000	0	20,000	210,000	10,935	0
120,000	0	11,000	109,000	4,743	0
\$2,755,000	\$265,000	\$646,000	\$2,374,000	\$159,114	\$ 0
\$240,000	\$ 0	\$30,000	\$210,000	\$13,560	\$ 0
\$780,000	\$ 0	\$120,000	\$660,000	\$27,587	\$ 0
\$740,000	\$ 0	\$60,000	\$680,000	\$37,067	\$ 0
\$125,000	\$ 0	\$25,000	\$100,000	\$ 0	\$ 0
\$79,796	\$ 0	\$15,008	\$64,788	\$4,801	\$ 0
75,000	0	15,000	60,000	3,150	0
\$154,796	\$ 0	\$30,008	\$124,788	\$7,951	\$ 0

CITY OF HAMPTON

Bond and Note Maturities June 30, 2004

General Obligation Notes

Year Ending June 30,	Capital Loan Note Issued May 1, 1993		Industrial Park Issued Sept 1, 1995		Refunding Note Issued April 1, 2004		Americinn/GL Coatings Issued February 1, 1998	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2005	7.50%	\$20,000	7.30%	\$115,000	1.30%	\$85,000	6.40%	\$35,000
2006			7.35	125,000	1.65%	90,000	6.50	35,000
2007			7.40	135,000	2.00%	90,000	6.60	35,000
2008							6.70	40,000
2009							6.80	40,000
2010							6.90	45,000
2011							7.00	50,000
2012							7.00	50,000
Total		<u>\$20,000</u>		<u>\$375,000</u>		<u>\$265,000</u>		<u>\$330,000</u>

Special Assessment

2000 Street Improvement Issued September 1, 2000		
Year Ending June 30,	Interest Rate	Amount
2005	5.40%	\$30,000
2006	5.50	30,000
2007	5.60	30,000
2008	5.70	30,000
2009	5.80	30,000
2010	5.90	30,000
2011	6.00	30,000
2012		
2013		
Total		<u>\$210,000</u>

Revenue Notes and Bonds

Water Refunding Note Issued August 1, 2002		Local Option Sales and Service Tax Revenue Bonds Issued February 1, 1998		
Interest Rate	Amount	Interest Rate	Amount	Total
3.25%	\$125,000	4.75%	\$60,000	\$185,000
3.70	125,000	4.80	65,000	190,000
4.00	130,000	4.85	70,000	200,000
4.20	135,000	4.90	70,000	205,000
4.40	145,000	5.00	75,000	220,000
		5.10	80,000	80,000
		5.20	85,000	85,000
		5.25	85,000	85,000
		5.30	90,000	90,000
	<u>\$660,000</u>		<u>\$680,000</u>	<u>\$1,340,000</u>

See Accompanying Independent Auditors' Report.

General Obligation Notes

Fire Truck, Street Industrial Park Issued September 1, 2000		Franklin Prairie Issued April 1, 2001		Golden Triangle FCDA Building Issued Nov. 19, 2001		
Interest Rates	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
5.15%	\$130,000	4.45%	\$20,000	3.30%	\$11,000	\$416,000
5.20	140,000	4.55	25,000	3.50	12,000	427,000
5.25	145,000	4.65	25,000	3.70	13,000	443,000
5.30	150,000	4.70	25,000	3.90	13,000	228,000
5.35	160,000	4.80	25,000	4.10	14,000	239,000
5.40	165,000	4.90	30,000	4.20	15,000	255,000
5.50	175,000	5.00	30,000	4.30	15,000	270,000
		5.10	30,000	4.40	16,000	96,000
	<u>\$1,065,000</u>		<u>\$210,000</u>		<u>\$109,000</u>	<u>\$2,374,000</u>

Bank Loans

First National Bank Urban Renewal Issued November 30, 1998		Hampton State Bank Urban Renewal Issued December 15, 1998		Total
Interest Rate	Amount	Interest Rate	Amount	
6.00%	\$15,922	4.20%	\$15,000	\$30,922
6.00	16,877	4.20	15,000	31,877
6.00	17,890	4.20	15,000	32,890
6.00	14,099	4.20	15,000	29,099
	<u>\$64,788</u>		<u>\$60,000</u>	<u>\$124,788</u>

Promissory Notes

Franklin County REC Water Tower June 1, 1998	
Interest Rate	Amount
0.00%	\$25,000
0.00	25,000
0.00	25,000
0.00	25,000
	<u>\$100,000</u>

CITY OF HAMPTON**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS
BY FUNCTION – ALL GOVERNMENTAL FUNDS**

Year Ending June 30, 2004

Receipts

Property Tax	\$1,219,295
Tax Increment Financing Collections	859,211
Other City Tax	342,954
Licenses & Permits	11,441
Use of Money and Property	46,261
Intergovernmental	559,730
Charges for Service	244,227
Special Assessments	41,078
Miscellaneous	96,558
Total	<u>\$3,420,755</u>

Disbursements

Operating	
Public Safety	\$770,806
Public Works	423,711
Health & Social Services	10,364
Culture & Recreation	370,225
Community and Economic Development	249,308
General Government	146,120
Debt Service	887,549
Total	<u>\$2,858,083</u>

See Accompanying Independent Auditors' Report.

Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Hampton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 28, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Hampton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items 2 and 9.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hampton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could

adversely affect the City of Hampton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings .

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness. Prior year reportable conditions have been resolved except for item A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hampton and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hampton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 28, 2004

City of Hampton

Schedule of Findings

Year Ended June 30, 2004

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS:

- A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review the procedures as suggested.

Conclusion – Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transaction and reports.

- B. Credit Cards – The City has credit cards for use by various employees while on City business. The City does not have a written policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We presently have unwritten guidelines. However, we have established a policy detailing specifics on the use of the City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

1. Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
2. Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the Health and Social Services, General Government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

3. Questionable Disbursements – No disbursements were noted that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.
4. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
5. Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
Jeff Ferris, Superintendent of Parks and Cemetery, Adventure City Turf	Cemetery Lawn Treatment	\$ 1,120
Patrick Palmer, Councilperson, Palmer & Palmer	Office Supplies	\$1,000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with council members do not appear to represent conflicts of interest since total transactions with each Council Member were less than \$1,500 during the fiscal year.

6. Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

7. Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.
8. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
9. Excess Fund Balances – We noted the fund balances in the Special Revenue Funds: Economic Development and Cemetery Trust; and Enterprise Funds: Water, Water Improvement, Water Reserve, Water Construction, Solid Waste and Meter Deposits were in excess of disbursements for the current year.

Recommendation – The City should investigate alternatives to eliminate the excesses.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

10. Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

NEWS RELEASE

Gardiner Thomsen, Certified Public Accountants, today released an audit report on the City of Hampton.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$4,422,299 for the year ended June 30, 2004, a 4% increase from 2003. The receipts included \$1,220,164 in property tax, \$859,211 from tax increment financing collections, \$1,222,748 from charges for service, \$412,258 from operating grants, contributions and restricted interest, \$127,186 from capital grants, contributions and restricted interest, \$257,699 from local option sales tax, \$17,994 from unrestricted investment earnings and \$305,039 from other general receipts.

Disbursements for the year totaled \$3,765,282, a 5% decrease from the prior year, and included \$887,549 for Debt Service, \$770,806 for Public Safety, and \$423,711 for Public Works. Also, disbursements for business type activities totaled \$907,199.

The significant increase/decrease in receipts/disbursements is due primarily to tax increment financing revenues/culture and recreation and community and economic development expenditures.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.